Against the Grain

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Cases of Note -- Extreme Kayaking Your Way Thru Copyright

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LEGAL ISSUES

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Cases of Note — Extreme Kayaking Your Way Thru Copyright

In Which A Small Film Production Company Learns of That Troublesome Causal Connection Needed Between Infringement and Damages

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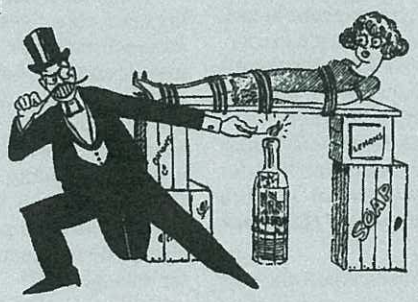
Polar Bear Productions, Inc. v. Timex Corporation, United States Court of Appeals For the Ninth Circuit, 2004 U.S. App. LEXIS 18737 (2004).

Timex wanted to promote its "Expedition" brand watch to outdoors fanatics, and what better angle than extreme kayaking. **Timex** sponsored a Montana-base film production company called **Polar Bear** in a film called "PaddleQuest." Like any sport, extreme kayaking has its stars, and these studs would paddle through savage North American white water and cockatoo-calling, liana-dripping jungles of South America.

Timex shelled out $25,000 and other assistance and got in exchange an exclusive one-year license to use the film for watch promotions. The **Timex** logo appeared large on gear used in the film and on film packaging and posters.



Timex found this such a success that it kept using the film after the year had run.

This kind of behavior never ceases to amaze me. And the cost/benefit analysis gets worse as you go along.

From 1995 to 1998, **Timex** used a ten minute "loop tape" at twelve trade shows. By contract, **Timex** could have used **Polar Bear** to produce this tape, but they would have had to agree upon a price. **Polar Bear** asked $37,500. **Timex** balked at this and told **Polar Bear** they would produce the tape themselves. **Polar Bear** warned **Timex** about using "PaddleQuest" material without permission. So **Timex** promised to not do it. And then proceeded to do just that. One-third of the loop was "Paddle-Quest."

A mere three-and-a-third minutes. Who will notice?

One of the two shareholders of **Polar Bear** spotted the loop tape at a trade show and the running of the entire "PaddleQuest." **Timex** also used the material in a promotion associated with **Mountain Dew** and in training videos for a big retailer. **Timex** had cleverly wiped out **Polar Bear's** copyright mark from the film.

Caught red-handed, **Timex** admitted they had done it.

Polar Bear sued. A jury returned a verdict for copyright violations in the amount of $315,000 actual damages and $2.1 million in indirect profits.

That stung. So **Timex** appealed to the Ninth Circuit.

So What Does the Statute Say About Damages?

"The copyright owner is entitled to recover the actual damages suffered by him or her as a result of the infringement, and any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages. In establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work." 17 U.S.C. § 504(b).

Yes, it's a double-whammy. Congress is giving the victim both his losses and the villain's gains.

*Which is why it seems so berserk to save a nickel by ripping off a little film company. Even though **Timex** does pretty well in the appeal, what they do lose plus the costs of litigation are just astounding.*

"Actual damages are usually determined by the loss in the fair market value of the copyright, measured by the profits lost due to the infringement or by the value of the use of the copyrighted work to the infringer." *McRoberts Software, Inc. v. Media 100, Inc.*, 329 F.3d 557, 566 (7th Cir. 2003).

And the infringer loses both direct and indirect profits gained from the theft. The case calls **Polar Bear** situation indirect profits as they are gained from an infringement in the brand promotions. *See generally, Andreas v. Volkswagen of Am., Inc.*, 336 F.3d 789 (8th Cir. 2003).

Polar Bear's Actuals

Damage awards must be sufficiently supported by evidence to be non-speculative. *See G.C. & K.B. Invs., Inc. v. Wilson,* 326 F.3d 1096.1108 (9th Cir. 2003). So how do you figure out what a license fee would have been given that the parties never struck the bargain?

Timex jumped on that notion and argued that **Polar Bear** never charged $37,500 so they can't recover that much. The Court called this argument "curious." **Timex** is no different than "an ordinary thief" and thus in no position to start bargaining at this date. It must accept the jury's finding especially since it did not exceed "reasonable market value." And that's why we have expert testimony.

The fact that **Timex** presented conflicting evidence as to the value of the license is a question for the jury.

Now what about lost profits? **Polar Bear** measured their losses by sales of "PaddleQuest" they didn't make because they lacked the capital to copy the videos at $20 to $30 per. If **Timex** had paid for the license, they could have done this.

The Court called this "pie-in-the-sky" citing *Cf. MindGames, Inc. v. Western Pub. Co.*, 218 F.3d 652, 658 (7th Cir. 2000). There must be a legally sufficient causal link. While **Polar Bear's** scenario might have happened, it's too speculative to say the failure to pay a "modest" license fee caused the lack of sales. So this part got remanded to be hacked out of the $315,000 awarded by the jury.

*Yes, the Court's explanation for its reasoning is just not there. **Polar Bear** was in a business relationship with **Timex** and had produced a proven product that **Timex** was*

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only too anxious to show off without payment. It seems that some kind of evidence of 10,000+ fanatic kayakers and ***Timex's*** *monetary deceit would create a causal link — completely aside from whatever failed venture capital raisings or other misfortunes* ***Polar Bear*** *might have suffered.*

Indirect Profits And That Causal Nexus Problem

While both direct and indirect profits can be taken back from **Timex**, again a causal link must be established which is not remote or speculative. 4 NIMMER ON COPYRIGHT § 14.03, 14-34.

17 U.S.C. § 504(b) has a two-step process. (1) **Polar Bear** must show a **causal nexus** between the infringement and **Timex's** gross revenue; and then (2) the burden shifts to **Timex** to prove what part of the revenue was not due to the theft. **Polar Bear** "must proffer some evidence ... [that] the infringement at least partially caused the profits that the infringer generated as a result of the infringement." *Mackie v. Rieser,* 296 F.3d 909, 911 (9th Cir. 2002).

The copyright owner can't just throw out some gross revenue figure for the company and say "now prove the net profit." This "obviates a good deal of mischief" in broad claims of profits that have nothing to do with the infringement. 4 NIMMER ON COPYRIGHT § 14.03[B], 14-39.

Polar Bear's expert claimed profits based on (1) direct sales at **Timex's** trade show booths; (2) the **Mountain Dew** promotion; and (3) enhancement of brand prestige from being hooked up with extreme kayaking.

The expert's experience in evaluating trade shows led to the conclusion of 10% to 25% of show sales result from excitement generated in the booth where "PaddleQuest" played such a prominent role.

The **Mountain Dew** promotion allowed consumers a chance to buy an Expedition watch at a discount. The **Mountain Dew** brochure featured "PaddleQuest" material. The gross sales from this promotion were readily ascertainable.

Where **Polar Bear** stumbled was in claiming big product prestige enhancement. While they could show excitement and sales at the trade shows, they could not make the next step of their claim by translating it into consumer enthusiasm that generated big sales and permitted **Timex** to raise prices and reap huge revenue.

A nexus was established in *Andreas,* 336 F.3d at 797-98. by the use of infringed materials in a widely-aired commercial. The Eighth Circuit said the infringed material "was the centerpiece of a commercial that essentially showed nothing but [the advertised product] ... that [the infringer] enthusiastically presented the commercial to its dealers as an important and integral part of its launch of [the product] ... sales of the [product] during the period that the commercial aired were above [infringer's] projections; the commercials received high ratings on ... surveys that rated consumer recall of the commercials; and [infringer] paid [the advertising company that created the commercial] a substantial bonus based on the success of the commercials." *Id.* at 796-97.

Of course you're saying surely this infringement did **Timex** some kind of good. But courts have generally rejected broad theories of enhanced good will as too speculative. *See, e.g., Deltak Inc. v. Advanced Sys., Inc.,* 574 F. Supp. 400 (N.D. Ill. 1983), *vacated on other grounds,* 767 F.2d 357 (7th Cir. 1985) (rejecting as speculative claim for defendant's profits on increased product sales due to infringing pamphlet); *Orgel v. Clark Boardman Co. Ltd.,* 1960 U.S. Dist. LEXIS 3977, 128 U.S.P.Q. 531 (S.D.N.Y. 1960), *modified,* 301 F.2d 119 (2d Cir. 1962) (rejecting as speculative a claim for collateral profits based upon defendant's increased income from law practice, allegedly derived from status as author of infringed treatise).

So the Court vacated the entire $2.1 million part of the award and **Polar Bear** limped back to district court to hash out the final details of its drubbing as the remaining $315,000 got shredded.